



Memorandum

Chuck Reed

TO: City Council

FROM: Mayor Chuck Reed

SUBJECT: Capital Improvements HP Pavilion

DATE: May 2, 2007

APPROVED:

DATE:

RECOMMENDATION

Approve items 4.2 (a), (b) and (c) related to Capital Improvements for HP Pavilion.

BACKGROUND

In approving the March Budget Message, the City Council directed the City Manager to return to the City Council with a funding strategy for improvements to HP Pavilion. This item is now agendized for the May 8th Council meeting.

HP Pavilion is approaching its 14th anniversary and has served as one of the most successful sports and entertainment venues in the country and one of the largest economic generators for the downtown. In addition, through 2007, the building has contributed \$29.9 million to the general fund. Between now and the expiration of the operating contract in 2018, an additional \$43.2 million will be contributed to the general fund. Both of these amounts are net totals which reflect the deduction of the City's contribution to the arena improvement funds.

When the facility opened two reserve funds were established for capital improvements and enhancements and were underwritten by revenue generated from the operations of HP Pavilion. These funds have paid for the overwhelming majority of improvements during the life of the facility. In its second decade of operation, however, HP Pavilion needs six significant upgrades to enable it to remain competitive nationally and to replace aging equipment for which parts no longer exist. The reserve funds are not able to pay for the total costs of these major improvements.

ANALYSIS

The cost for the upgrades is \$16.5 million. The City will pay half and Silicon Valley Sports and Entertainment (SVSE) will pay the other half. Of the City's \$8.25 million, the City will spend \$4.5 million primarily from the facility's reserve funds and of the remaining \$3.75 million, \$1.25 million will be paid over each of three years from the City's share of HP Pavilion's naming rights revenue in years 2012/2013 – 2014/2015. Starting in 2012/2013 the naming rights revenue is unallocated but through 2011 – 2012 the naming rights revenue has been allocated to the general fund. Please consider the following:

- The City's partner, SVS&E, has done an exceptional job in operating HP Pavilion and will pay for 50% of the improvements;
- \$4.5 million of the city's share are primarily from funds established for arena improvements;
- The remaining \$3.75 million is paid over three years from the City's share of the building's naming rights starting in the year 2012-2013.

The \$16.5 million in improvements is essential for HP Pavilion to continue to bring the best in sports and entertainment to San Jose. I strongly encourage you to support these recommendations.